KENNEDY BLACK
WEALTH MANAGEMENT

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It was only a couple of months ago that Kennedy Black Wealth Management celebrated its second birthday. Yet it amazes me how far the business has come from those early days. I am therefore extremely proud to be able to declare officially that Kennedy Black is now 100% ready for the RDR, making us one of the very first adviser firms in the country to do so (420 days early)!

We explain below what RDR is, why it is important and why you should choose a financial adviser that is embracing the new rules. We hope that this demonstrates our commitment to the highest possible standards of qualifications, transparency and professionalism.

Why being RDR ready is important

Kennedy Black Wealth Management is among the first businesses in the country to be able to declare officially that it is completely ready for the Retail Distribution Review – 420 days before the deadline.

We will forgive you if you have no idea what that means, so here's a brief explanation and, more importantly, why it matters.

For the past few years, the Financial Services Authority ("FSA") has been working towards radically improving the delivery of financial advice. The 'Retail Distribution Review' will introduce a number of major changes, all of which are due to come into force on 1st January 2013.

So what is changing? The three main goals of the RDR are clear:

1. All advisers must now reach a higher level of education;
2. Advisers may no longer accept commission for investment business, instead they must agree their remuneration with the client;
3. Advisers must declare themselves as 'independent' (i.e. whole-of-market) or 'restricted' (i.e. offering advice from one or a limited number of providers).

In our view, all three of these goals must be commended, since all three will have significant benefits for retail investors.

From the point of view of the retail investor, having an adviser that is better qualified can only be a good thing – leading to better quality advice. Clearly, obtaining such qualifications is time-consuming and expensive, but ultimately that is more of a concern to the adviser than their client.

The banning of commission on investment business is perhaps the most controversial point. However, from the point of view of the retail investor, we believe that it is fundamental that advisers should not be incentivised to sell certain products or services instead of others. The new rules will increase transparency and ensure a client's interests and the adviser's interests are completely aligned.

The downside here is that advisers will now have to charge explicitly for their services, when many consumers have been led to believe in the past that advice was free (some still adopt this shady practice – see next section). In our view, commission-based advice should never be branded as free, since any commission still ultimately comes out of the client's pocket.

Finally, it is clearly important that clients understand who they are dealing with- whether a whole-of-market adviser or one who sells only a finite range of products.

Kennedy Black Wealth Management has supported the RDR since our inception. In our view, it is important that clients look for advisers who are embracing the new rules: these clients will get more transparent, more highly qualified advice.

Crucially, it is also important to work with an adviser who has already made progress towards the new rules. Not only will many advisers be cramming for exams next year, but there could be a significant backlog in obtaining the required approvals. That sort of operational congestion can only lead to problems, so why take a chance?

Where to go for advice?

In light of the above, a report published in by Which? magazine on 16th November has highlighted the pitfalls in selecting an adviser (http://bit.ly/tfAEcU). In an undercover investigation, Which? discovered that only 13% of the banks they asked for investment advice gave "good advice." The rest gave "unsuitable recommendations," "had a poor understanding of investment risks," and, "made misleading comments about features and costs." Nearly half of the banks they spoke to claimed that the advice was free, when in fact they were taking up to 8.8% in upfront commission (see previous article about how to avoid this nefarious practice).

In the words of Paul Lewis (from the BBC's MoneyBox programme), "Never ever, ever, ever, ever, ever, ever go to a bank for financial advice."

Financial Planning Week ™ Special Offer

We believe that it is important when looking for financial advice to use a proper financial planner who can give you a comprehensive overview of your current financial position. A detailed financial plan can help you ascertain whether your long-term goals (e.g. retirement, school fees, that holiday home you've always wanted) are achievable and what will be required to get you there.

It may have passed you by, but last week (Nov 21-28) was "Financial Planning Week™" (see http://bit.ly/tlFZig for more info). In honour of this, we are offering all clients who sign up to one of our service plans before the end of the year a comprehensive "Lifetime Cashflow Plan" report as part of the initial process (usually reserved for 'Platinum' clients and above).

Beware the Junior ISA

The "Junior ISA" was launched on 1st November, with little more than some murmuring in the press.

However, the rumbling has grown and I was interested to see an e-petition running for the old Child Trust Funds to be merged into the new Junior ISA.

In our view, be careful what you wish for. Parents might think that a Junior ISA is a great, tax-free way of investing for their children. However, like its predecessor the Child Trust Fund, we would warn you that there is one very alarming attribute that makes it inappropriate for a lot of financial plans.

The problem is simply that the child gains automatic access to the cash immediately on his or her 18th birthday. They are therefore only suitable for lump sums that you are happy for the child to take full control over. And if you were to contribute the maximum £3,600 a year, at 18 that pot could be worth nearly £75,000 in today's terms (assuming real net investment growth of 1.5% pa). Certainly more than enough to buy a motorbike.

A recent court case highlighted how important this can be to parents – a mother recently surrendered her entitlement to a £750,000 inheritance so that her three year old son would have to wait until he is 25 to receive his share, rather than 18 which was his original entitlement.

We would therefore challenge any parents clamouring to open a Junior ISA and ask them whether that really is what they want.

In reality, parents want to retain some or complete control over their children's investments (perhaps for school/university fees, or a gap-year etc.) It is therefore far better in most family circumstances for the child's account to be written under trust (where the parents remain as trustees and therefore retain control).

Alternatively, if the parents don't use their ISA allowances every year (£10,680 per individual), a separate, designated ISA account would be even more tax efficient and would still leave the parent(s) in total control.

If you would like to discuss your own circumstances, please get in touch.

Investment Rule #8:

"Don't kid yourself"

In our view, the only way to get a higher expected return on an investment is to take more risk. There is, in our opinion, simply no such thing as a low-risk/high-return opportunity.

It is all too simple to get sucked into the promises of easy returns, when in fact they are anything but. Ask yourself "if it's really that easy, why are they offering this opportunity to someone else?"

In the world of finance, investors justifiably expect to be remunerated for the risks they take. There is a highly liquid market in risk out there, so it is unlikely that you've stumbled on something special.

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